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RUEHBJ/AMEMBASSY BEIJING PRIORITY 1901  
RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0205  
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000973

SIPDIS

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E.O. 12958: DECL: 07/28/2018

TAGS: [PREL](#) [PGOV](#) [EPET](#) [AJ](#) [TX](#)

SUBJECT: TURKMENISTAN: BURIED HILL SAYS IT IS UNFAZED BY  
AZERI GUNBOAT INCIDENT

REF: A. IIR 6 941 0063 08

[1](#)B. ASHGABAT 964

[1](#)C. ASHGABAT 958

[1](#)D. ASHGABAT 884

[1](#)E. IIR 6 940 0006 08

Classified By: Charge d'Affaires Sylvia Reed Curran for reasons 1.4(B)  
and (D).

[1](#)1. (C) SUMMARY: Canadian oil firm Buried Hill, which has a contract from the Government of Turkmenistan to develop hydrocarbons in the Serdar/Kyapaz field in block III, is moving forward very slowly in its plans. It concluded 2-D seismic imaging in February, and hopes to drill three exploratory holes in the first quarter of 2009. While Buried Hill had a chance to see first-hand on April 11 that the Azeris are taking their claim to much of block III seriously -- the Azeri coast guard stopped a Russian vessel hired by Buried Hill before intercepting the Petronas-hired rig in block I -- the country manager claims he has no concern that a similar incident could occur when Buried Hill begins its drilling. We (and just about everybody else) continue to believe that Buried Hill, which lacks any experience in deep-water drilling, is only going through the motions, waiting for the appropriate time to sell the PSA area at a profit. END SUMMARY.

[1](#)2. (C) During a July 25 meeting, Canadian oil firm Buried Hill's country manager, Eldar Iskanderov, told A/DCM that his company, which holds a contract with the Government of Turkmenistan to work Turkmenistan's disputed offshore block III (Serdar/Kyapaz), is planning to conduct three exploratory drillings in the first quarter of 2009. He told us that, although Turkmenistan's government is pushing for an earlier drilling date, his company simply will not be ready to drill for at least four to five more months. Buried Hill completed dense 2-D seismic testing in February, and is still evaluating the testing results. The company hopes to hire the Maersk Explorer, a Baku-based semi-submersible drilling

rig, to carry out the drilling once it finishes a contract with Lukoil in Azerbaijan.

13. (C) According to Iskanderov, Buried Hill wants to focus on drilling oil, though he acknowledged that -- with today's prices for natural gas -- "anything would be okay." However, the company does not want to work both oil and gas, even if the field has large amounts of associated gas, since both would need to be handled separately, greatly increasing overall operational expenses. He sidestepped the A/DCM's question regarding the probable size of reserves in the Serdar/Kyapaz field, indicating that nobody could make an accurate estimate before drilling commences. With production an estimated five years off, Iskanderov said that the company also has not begun considering how to transport any hydrocarbons that it finds.

#### BURIED HILL STORY ON GUNBOAT INCIDENT CONSISTENT WITH OTHER REPORTS

14. (C) Iskanderov said that his company was in block III on April 11 when the Azeri border guard vessels intercepted the rig doing exploratory drilling in block I for Petronas (reftels). The Russian research vessel that the Azeris reported they had found (ref a) was doing work for Buried Hill and was totally unassociated with the activities of the Petronas rig. (NOTE: Iskanderov refused to discuss just what type of work the Russian vessel was doing. END NOTE.) The rig drilling for Petronas was located in block I, several miles east of the vessel chartered by Buried Hill, and could

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be seen on the horizon. He said that the interception had been interesting in that the Azeri gunboats clearly had not been patrolling along the median line, as they normally do. Instead, the vessels came from the west -- possibly, Iskanderov guessed, from the ACG field. They asked what the Buried Hill vessel was doing in block III, but let it remain where it was once they looked at its papers since it clearly was not doing anything. They then departed on an eastern course, toward the rig.

"IT WOULD BE A MISTAKE TO POLITICIZE COMMERCIAL ACTIVITIES"

15. (C) Iskanderov, a Turkmen citizen, claimed that his company remains unfazed by the prospect of drilling in waters to which Azerbaijan maintains a claim, even after the gunboat incident. It is enough that his company has a legal contract with the Government of Turkmenistan. Iskanderov denied that Buried Hill has been in touch with the Azeris or SOCAR and suggested that somebody on the Azeri side was given bad orders. This will not happen again, he suggested. He also maintained that, since his firm will only be carrying out commercial activities, it would be wrong to politicize the drilling, even if the two sides have still not reached agreement on a border.

16. (C) COMMENT: During recent meetings with GAC Marine, we found out that Buried Hill, which has issued a tender, received a PSA contract for block III on November 2, 2007. Most experienced players in the hydrocarbon sector, pointing to Buried Hill's total lack of experience in deep-water production, continue to believe that the firm is just going through the motions of developing block III in hopes of being able to make a killing once it knows exactly what it has. Iskanderov's seemingly blas attitude about the possibility of being caught between two countries that both assert ownership over the area his company plans to work, combined with his apparent nonchalance on the company's plans to develop the block suggest this thinking may be correct. END COMMENT.  
CURRAN